



DEPARTMENT OF AGRICULTURE

STATE MILK BOARD

TWO YEARS ENDED JUNE 30, 1999

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-65
July 31, 2000
www.auditor.state.mo.us



Office Of The
State Auditor Of Missouri
Claire McCaskill

July 2000

www.auditor.state.mo.us

The following problems were discovered as a result of an audit conducted by our office of the Department of Agriculture, State Milk Board.

The State Milk Board is responsible for conducting the state's Grade A and manufacturing grade milk inspection programs.

The State Milk Board requires water test samples to be taken every six months for manufacturing grade plants and receiving stations and every three years for farms. During our review, we noted seven of twelve water tests for which the board had no record on file. Of the seven tests, two were from plants, one from a receiving station, and four from farms. Without the actual water test or a report regarding each entity's water test results, the board has no assurance that the tests were conducted and any violations were resolved.

The State Milk Board requires manufacturing grade farms to be inspected at least annually. Because of funding limitations, the board has arranged for manufacturing milk plant fieldmen to perform the required inspections of the producers at not cost to the state. However, the duties of the milk plant fieldmen conflict with the regulatory responsibilities imposed by the board.

Our review of the February 2000 delinquent farm inspection report indicated twenty farm inspections which were delinquent and five of the farms were delinquent more than thirteen months. According to State Milk Board management, a stop sell order is to be issued if the farm inspection is not received within thirteen months. As of March 17, 2000, four of the five farms delinquent more than thirteen months had not been issued a stop sell order.

As pointed out in previous audits, the board has not established a program which requires regular pesticide testing of raw manufacturing milk and milk products. Federal requirements include a provision which states milk containing pesticides or other chemical residues in excess of the established limits shall not be sold or offered for sale for human food.

State law requires the State Milk Board, at a minimum, to ensure compliance with the Grade A Pasteurized Milk Ordinance of the United States Public Health Services. Such regulations shall be enforced by the State Milk Board through either contractual agreements with political subdivisions of the state or employees of the board.

(over)

YELLOW SHEET

The contract between the board and the local health departments (contractors) requires the contractors to make inspection and regulatory records available. The contract does not require the contractors to submit the actual inspections or other compliance monitoring tests to the board; however, some of the inspections and other compliance monitoring tests are forwarded to the board. The State Milk Board does require contractors to submit a monthly report. These reports provide summary data of the total number of: inspections performed, on-site visits, water tests conducted and unsatisfactory results, pesticide testing and unsatisfactory results, raw milk samples and unsatisfactory results, finished product samples and unsatisfactory results. The monthly reports lack detailed information on individual plants, farms, receiving and transfer stations, and haulers. Without detailed information by entity, the State Milk Board has no assurance that inspection and compliance monitoring is being properly performed by the contractors and that adequate follow up is being performed in those cases where violations are detected.

Note: Milk inspection fees collected from producers are no longer sufficient to cover costs of payments to contractors who perform inspections. In addition, the local health departments received payments in excess of the amount allowed by statute. The State Milk Board could save approximately \$143,000 per year by assuming the management responsibilities of the Springfield area.

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD

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DEPARTMENT OF AGRICULTURE
STATE MILK BOARD

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FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS**

Honorable Mel Carnahan, Governor
and
John Saunders, Director
Department of Agriculture
and
Terry S. Long, Executive Secretary
State Milk Board
Jefferson City, Missouri 65102

We have audited the accompanying special-purpose financial statements of the various funds of the State Milk Board as of and for the years ended June 30, 1999 and 1998, as identified in the table of contents. These special-purpose financial statements are the responsibility of the board's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the Milk Inspection Fees Fund; receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the State Milk Board and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the board.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the Milk Inspection Fees Fund; receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the State Milk Board as of and for the years ended June 30, 1999 and 1998, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated February 7, 2000, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the board's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.



Claire McCaskill
State Auditor

February 7, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Regina Pruitt, CPA
In-Charge Auditor:	Lonnie Breeding, III
Audit Staff:	Gabriel Rackers



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Mel Carnahan, Governor
and
John Saunders, Director
Department of Agriculture
and
Terry S. Long, Executive Secretary
State Milk Board
Jefferson City, Missouri 65102

We have audited the special-purpose financial statements of the State Milk Board as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated February 7, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of the State Milk Board are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other instances of noncompliance which are presented in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the State Milk Board, we considered the board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial

statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management of the State Milk Board and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

February 7, 2000 (fieldwork completion date)

Financial Statements

Exhibit A

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
AND INVESTMENTS - MILK INSPECTION FEES FUND

	Year Ended June 30,	
	1999	1998
RECEIPTS:		
Milk inspection fees	\$ 1,427,041	1,390,581
DISBURSEMENTS:		
Personal service	95,552	95,635
Employee fringe benefits	25,284	25,374
Expense and equipment	40,568	43,532
Inspection contract costs	1,194,009	1,234,416
Total Disbursements	1,355,413	1,398,957
RECEIPTS OVER (UNDER) DISBURSEMENTS	71,628	-8,376
CASH AND INVESTMENTS, JULY 1	201,488	209,864
CASH AND INVESTMENTS, JUNE 30	\$ 273,116	201,488

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF RECEIPTS - GENERAL REVENUE FUND-STATE

	Year Ended June 30,	
	<u>1999</u>	<u>1998</u>
Other inspection fees	\$ <u>16,709</u>	<u>18,499</u>
Total	\$ <u><u>16,709</u></u>	<u><u>18,499</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1999			1998		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal Service and Expense and Equipment and for contractual services with local health agencies	\$ 250,000	242,266	7,734	250,000	246,067	3,933
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	7,916	7,679	237	7,916	7,679	237
Personal Service	94,606	88,516	6,090	90,037	80,539	9,498
Expense and Equipment	24,800	22,837	1,963	24,800	24,456	344
Total General Revenue Fund - State	377,322	361,298	16,024	372,753	358,741	14,012
MILK INSPECTION FEES FUND						
Personal Service	108,647	95,552	13,095	103,576	95,635	7,941
Expense and Equipment	38,065	32,525	5,540	38,065	35,109	2,956
Personal Service and Expense and Equipment and for contractual services with local health agencies	1,500,000	1,220,660	279,340	1,500,000	1,316,925	183,075
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	10,214	8,297	1,917	10,214	8,297	1,917
Total Milk Inspection Fees Fund	1,656,926	1,357,034	299,892	1,651,855	1,455,966	195,889
STATE CONTRACTED MANUFACTURING DAIRY PLANT INSPECTION AND GRADING FEE FUND						
Expense and Equipment	8,000	0	8,000	8,000	0	8,000
Total State Contracted Manufacturing Dairy Plant Inspection and Grading Fee Fund	8,000	0	8,000	8,000	0	8,000
Total All Funds	\$ 2,042,248	1,718,332	323,916	2,032,608	1,814,707	217,901

The accompanying Notes to the Financial Statements are an integral part of this statement.

Supplementary Data

Schedule 1

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,				
	1999	1998	1997	1996	1995
Personal service	\$ 239,730	176,174	159,467	160,859	149,828
Travel and vehicle expense	36,590	29,496	24,918	22,477	24,924
Transportation equipment purchases	14,000	0	3,643	0	42,000
Office expense	5,822	5,436	6,205	6,579	6,732
Office and communication equipment purchases	0	688	777	787	5,742
Communication expense	8,279	7,081	6,428	5,550	4,447
Institution and physical plant:					
Expense	24,147	28,183	26,874	25,983	24,888
Purchases	512	0	0	0	3,905
Data processing expense and equipment	2,779	3,900	4,256	7,949	3,669
Professional services	1,384,344	1,562,640	1,545,437	1,628,676	1,671,141
Other expense	2,129	1,109	1,584	1,273	1,495
Total Expenditures	\$ <u>1,718,332</u>	<u>1,814,707</u>	<u>1,779,589</u>	<u>1,860,133</u>	<u>1,938,771</u>

The accompanying Note to the Supplementary Data is an integral part of this statement.

Schedule 2

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS (NOTE 5)

Type of General Fixed Assets	Balance June 30, 1997	Additions	Dispositions	Balance June 30, 1998	Additions	Dispositions	Balance June 30, 1999
GENERAL REVENUE FUND - STATE							
Office furniture and equipment	\$ 35,824	4,531	-2,513	37,842	5,163	-1,795	41,210
Automobiles	30,493	0	0	30,493	0	0	30,493
Total General Revenue Fund - State	66,317	4,531	-2,513	68,335	5,163	-1,795	71,703
MILK INSPECTION FEES FUND							
Office furniture and equipment	179,800	0	-500	179,300	14,491	-2,469	191,322
Automobiles	14,000	0	0	14,000	0	0	14,000
Total Milk Inspection Fees Fund	193,800	0	-500	193,300	14,491	-2,469	205,322
Total General Fixed Assets	\$ 260,117	4,531	-3,013	261,635	19,654	-4,264	277,025

The accompanying Note to the Supplementary Data is an integral part of this statement.

Notes to the Financial Statements and Supplementary Data

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
NOTES TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Notes to the Financial Statements:

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Department of Agriculture, State Milk Board.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the Milk Inspection Fees Fund. Appropriations from this fund are expended by or for the board for restricted purposes.

Receipts are presented in Exhibit B for the General Revenue Fund-State. Receipts include monies the board collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the board's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the board and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statement of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, presents amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Statements of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period, which ends August 31 for regular appropriations and December 31 for capital improvement appropriations. The authority to expend appropriations ends with the close of the lapse period. However, the General

Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The board administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

Milk Inspection Fees Fund: This fund is authorized by Section 196.947, RSMo 1994, to receive all monies paid to the state for milk inspection. Expenditures, authorized by appropriations, are to be used exclusively for the purpose of defraying the costs of the state milk inspection program, which may include payments to other agencies for services provided related to the program. Any unexpended balances in this fund are perpetually maintained for the purposes of the fund.

General Revenue Fund - State: The board receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for basic operation of the board, including those programs and services that have no other funding source. These appropriations also may be used to initially fund or to provide matching funds or support for programs paid wholly or partially from other sources.

State Contracted Manufacturing Dairy Plant Inspection and Grading Fee Fund: This fund is authorized by Section 196.614, RSMo 1994, to receive all monies paid to the state by the United States Department of Agriculture for contracted manufacturing dairy plant inspection and grading. Expenditures, authorized by appropriations, are to be used exclusively for the purpose of defraying the costs of the contracted manufacturing dairy plant inspection and grading program. Any unexpended balances in this fund are perpetually maintained for the purposes of the fund. Through fiscal year 1999, no monies have yet been received by or expended from this fund.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferrals and, beginning January 1, 1996, a monthly state matching contribution for each participating employee.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation plan match.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the Milk Inspection Fees Fund for costs related to salaries paid from that fund. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statement at Exhibit C.

The Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards* requires certain disclosures regarding public employee retirement systems and postemployment benefits such as health care and life insurance benefits provided to retired employees. Required disclosures for the state financial reporting entity are included in the State of Missouri Comprehensive Annual Financial Report issued by the Office of Administration.

2. Cash and Investments

The balance of the Milk Inspection Fees Fund is pooled with other state funds and invested by the state treasurer.

3. Inspection Contract Costs

During the year ended June 30, 1998, the State Milk Board contracted with the county of St. Louis and the cities of Kansas City and Springfield to inspect Grade A milk supplies. During the year ended June 30, 1999, the State Milk Board contracted with the county of St. Louis and the city of Springfield and the State Milk Board assumed management responsibility from the city of Kansas City. This expenditure category represents the cost associated with these contracts paid from the Milk Inspection Fees Fund. During the fiscal years 1999 and 1998, an additional \$242,266 and \$246,067, respectively, was paid to these agencies from an appropriation from the General Revenue Fund-State.

4. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

		Milk Inspection Fees Fund	
		Year Ended June 30,	
		1999	1998
DISBURSEMENTS PER EXHIBIT A	\$	1,355,413	1,398,957
Employee fringe benefits		(25,284)	(25,374)
Lapse period expenditures:			
1999		145,951	119,046
1998		(119,046)	(36,663)
EXPENDITURES PER EXHIBIT C	\$	<u>1,357,034</u>	<u>1,455,966</u>

Note to the Supplementary Data:

5. General Fixed Assets

General fixed assets, which are recorded as expenditures when acquired, are capitalized at cost in the General Fixed Assets Account Group and are not depreciated.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Current Recommendations

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
SUMMARY OF FINDINGS

1. Milk Inspection Program (pages 22-25)

Milk inspection fees collected from producers are no longer sufficient to cover costs of payments to contractors who perform inspections. In addition, the local health departments received payments in excess of the amount allowed by statute. The State Milk Board (SMB) could save approximately \$143,000 per year by assuming the management responsibilities of the Springfield area.

2. Revenue Maximization (page 25)

The SMB has no formal policies or procedures for ensuring that reported volume and fees are correct, and that all inspection fee revenues are remitted to the SMB as required by statute.

3. Grade A Compliance Monitoring (page 26)

The local health departments are not required to submit to the SMB the actual inspection details or other compliance monitoring results.

4. Manufacturing Grade Compliance Issues (pages 27-29)

The SMB had no record of some water sample tests and inspections of manufacturing grade producers and processors. Manufacturing milk plant fieldmen perform conflicting duties by regularly inspecting producers and the SMB does not adequately follow-up with the fieldmen to ensure manufacturing grade producers are inspected annually as required by SMB regulations. Some bulk milk haulers are not regularly inspected for compliance with sanitary and other requirements. The SMB has not established regular pesticide testing of raw manufacturing milk or manufacturing milk products.

5. Rating Surveys (pages 29-30)

The state Department of Health (DOH), as the designated rating agency for the SMB, does not make annual rating surveys as required by law. In addition, documentation was not available to support some rating survey results.

STATE MILK BOARD
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S CURRENT RECOMMENDATIONS

We have audited the special-purpose financial statements of the State Milk Board as of and for the years ended June 30, 1999 and 1998, and have issued our report thereon dated February 7, 2000.

The following Management Advisory Report presents our findings and recommendations arising from our audit of the board's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered as all-inclusive of areas where improvements may be needed.

1.	Milk Inspection Program
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The Milk Inspection Fees Fund (MIF) was established to receive fees collected from milk producers. Section 196.945, RSMo 1994, allows the SMB to set fees not exceeding five cents per one hundred pounds of milk produced. The monies collected are used for inspection and compliance monitoring expenses, including payments to local health departments which contract with the SMB to perform these services. Effective for fiscal year 1999, the SMB assumed management of the Kansas City area and contracted with the Springfield and St. Louis health departments to provide these services in their specified areas. In fiscal years 1997, 1998, and 1999, approximately \$250,000 was appropriated each year from the General Revenue Fund-State to help cover payments made to contractors.

Amounts paid to local health department contractors for the past five years are shown below:

<u>Fiscal Year</u>	<u>Payments To Contractors</u>	<u>Number Of Milk Producers</u>
1999*	\$1,462,926	1,724
1998	1,562,992	2,017
1997	1,542,905	2,161
1996	1,625,527	2,337
1995	1,666,660	2,487

* Payments to contractors are for St. Louis and Springfield only.

- A. Payments made to contractors are based on the pounds of milk produced in each contractor's area. The SMB receives annual budget estimates from each of the health

department milk inspection programs; however, actual cost data is not obtained from the contractors.

The payments to the health department contractors represent the most significant expenditure outlay for the SMB. In addition, it appears the fees collected from producers are not adequate to cover inspection and compliance monitoring costs as appropriations from General Revenue Fund-State were requested in fiscal years 1995, 1996, 1997, 1998, and 1999 to help cover payments to contractors. As a result, it is important the SMB carefully analyze budget and cost data from the contractors to ensure payments are appropriate and reasonable.

The SMB's records indicate costs incurred by the SMB for assuming management responsibility of the Kansas City area for fiscal year 1999 totaled approximately \$129,000, whereas payments to the Kansas City Health Department for fiscal year 1998 totaled \$254,681. Therefore, the SMB saved approximately \$126,000 in fiscal year 1999 by assuming management of the Kansas City area. Similar savings could possibly be realized by assuming management responsibility of the St. Louis or Springfield area. According to the SMB management, these possibilities have been considered because of the potential cost savings. Discussions with the SMB management indicate it would cost approximately \$311,000 to assume management of the Springfield area, while fiscal year 1999 contract payments were approximately \$454,000. This represents an approximate \$143,000 cost savings to the SMB. An analysis for the St. Louis area was not performed.

A comprehensive review of the fee structure should be performed to determine if a statutory fee increase is necessary to cover costs of inspections and compliance monitoring or if alternatives such as the SMB providing these services itself should be given further consideration.

- B. As noted above, the SMB contracts with local health departments to perform inspections and compliance monitoring of milk producers. The contracts state the SMB will pay each agency 4.75 cents per one hundred pounds of instate milk and 3.75 cents per one hundred pounds of imported milk inspected by the agency. Starting in fiscal year 1995, the contracts provided for additional payments to be made from a General Revenue Fund-State appropriation. Contract payments, including the amounts received from the General Revenue Fund-State, totaled \$1,462,926 and \$1,562,992 for the health departments for fiscal year 1999 and 1998, respectively.

Section 196.947, RSMo 1994, limits the total payment to each health department to five cents per one hundred pounds of milk or milk products. Based on the SMB's records of milk produced in fiscal years 1999 and 1998, it appears the Springfield and St. Louis Health Departments were paid approximately \$62,446 and \$7,909, respectively, more than the limit set by statute.

Similar conditions were also noted in several prior reports.

WE AGAIN RECOMMEND the SMB:

- A. Develop an estimated cost for the inspection and compliance monitoring program for each contractors area and then compare these costs to MIF revenues for that area. Once this analysis is completed, the SMB should consider any justified changes in management responsibilities of the Springfield or St. Louis area, or determine whether legislation increasing fees should be pursued to ensure sufficient monies are collected to cover costs of inspection and compliance monitoring.
- B. Ensure payments to the local health departments for the inspection of milk and milk products do not exceed limits established by state law or pursue legislation to amend state law to allow such payments.

AUDITEE'S RESPONSE

- A. *The State Milk Board feels that involvement of local health departments in milk inspection gives Missouri consumers assurance that their health is foremost in the minds of those responsible for the safety of dairy products presented for their consumption. The milk contracts provide a means of establishing not only inspection systems but local laboratories capable of testing and just as importantly, assuring consumers of safe products in their area by investigating complaints individually and locally. The board, however, has taken a position that as future contracts may be given up by local health departments it will attempt to assume enforcement authority as it did with Kansas City.*
- B. *The State Milk Board was prompted to seek appropriations from general revenue to add to the available fee payment appropriate for contract defrayment after a study conducted by its long range management committee and after study of contract agency costs, along with a university study about inspection fees and their effect on the dairy industry in Missouri during the 1994-1995 fiscal years. The costs of inspections and fee collections have increased and compounded by all accounts since the studies were conducted.*

The State Milk Board respectfully disagrees with the auditors findings regarding the interpretation of Section 196.947, RSMo 1994. Specifically, the auditor has found that Section 196.947, RSMo 1994, limits the total payment to each health department to five cents per 100 lbs. of milk or milk products. The board considers that Section 196.947, RSMo 1994, is limited in its application to those funds which are collected and placed in the milk inspection fee fund. The statute does not have any application to those amounts appropriated for contract defrayment from other funds. The board has never interpreted Section 196.947, RSMo 1994, as restricting the board from utilizing appropriated funds in order to subsidize the cost of milk inspection. The board utilizes funds from general revenue when the local jurisdictions have documented that their costs exceeded those which are provided for under the milk inspection fee fund. Accordingly the board does not agree with the auditor's interpretation of Section 196.947, RSMo 1994, and submits that according to

its appropriations and contract payments for fiscal years 1999 and 1998, no overpayments to any of the contract agencies exist.

2.

Revenue Maximization

Section 196.945, RSMo 1994, requires an inspection fee not to exceed five cents per one hundred pounds of all Grade A raw milk produced to be assessed and remitted to the SMB. These fees are to be paid by all milk plants, milk dealers, processors, or distributors selling graded fluid milk and fluid milk products in the state. To comply with this statute, the SMB requires the entities to prepare a monthly volume and fee report which details the volume of milk received or shipped and applicable fees. This record is checked for mathematical accuracy; however, the SMB has no formal procedures in place to ensure that the reported volume and applicable fees are correct. According to the SMB's Executive Secretary, SMB personnel will occasionally review on-site records to ensure that all fees have been properly remitted.

Information provided in the SMB's minutes for May 15, 1998, and April 16, 1999, indicated unremitted inspection fees totaling \$32,230 from a milk plant and distributor were determined. The SMB Executive Secretary determined the unremitted fees by more closely evaluating volume and fee report information provided by one entity and as a result of an on-site review of records at the other entity. These fees were subsequently remitted to the SMB.

Antibiotic testing logs and product distribution records which detail all shipments received and the source of each shipment are maintained by the various entities paying these statutory fees. These records contain enough information to allow the SMB to ensure that all fees are paid on applicable milk and milk products. According to SMB management, these records are not routinely checked due to insufficient personnel and because the current staff does not possess the expertise necessary to audit the product distribution records. Increased review of on-site records may result in additional determinations of unremitted fees. The SMB needs to give consideration to developing a procedure to expand (at least on a test or sample basis) its verification of volume and fee report information submitted along with statutory fees.

WE RECOMMEND the SMB develop procedures to ensure that all inspection fee revenues are properly remitted.

AUDITEE'S RESPONSE

The State Milk Board has never established a procedure or a formal process to audit incoming milk or products subject to fee assessments. The board is now trying to acquire personnel to accomplish routine auditing of receipt records at plants and distributors throughout Missouri to assure fees are properly submitted on export products.

3.**Grade A Compliance Monitoring**

Section 196.939, RSMo 1994, requires the SMB, at a minimum, to ensure compliance with the Grade A Pasteurized Milk Ordinance (PMO) of the United States Public Health Services. Such regulations shall be enforced by the SMB through either contractual agreements with political subdivisions of the state or employees of the SMB. As previously noted, these services are provided by either local health departments, or the SMB.

The contract between SMB and the local health departments (contractors) requires the contractors to make inspection and regulatory records available to the SMB. The contract does not require the contractors to submit the actual inspections or other compliance monitoring tests to the SMB. However, some of the inspections and other compliance monitoring tests are forwarded to the SMB. The SMB does require the contractors to submit a monthly report. These reports provide summary data of the total number of: inspections performed, on-site visits, water tests conducted and unsatisfactory results, pesticide testing and unsatisfactory results, raw milk samples and unsatisfactory results, finished product samples and unsatisfactory results. The monthly reports lack detailed information on individual plants, farms, receiving and transfer stations, and haulers. Without detailed information by entity the SMB has no assurance that inspection and compliance monitoring is being properly performed by the contractors or that adequate follow up is being performed in those cases where violations are detected.

The SMB's Executive Secretary indicated that the SMB is considering developing a computerized system which would link the contractors data to the SMB, so that inspection records and test results for each entity could be electronically transferred to the SMB. A review of the board's meeting minutes and discussions with the SMB Executive Secretary provided no specific information or time frames for when and how this automated process will be implemented. As a result, the SMB needs to consider timely and alternative procedures to gain increased assurance that its contractors are satisfying their inspection and compliance monitoring responsibilities.

WE RECOMMEND the SMB require that all inspection forms and compliance monitoring tests be forwarded to the SMB or, at a minimum, require that the monthly contractors' reports provide sufficient detail by entity so that the SMB can better ensure that each producer, processor, and hauler is being properly monitored and that any violations of the PMO or state statute are being properly handled.

AUDITEE'S RESPONSE

The State Milk Board will again consider the possibility of linking contractee databases to its own. The development of equipment and programs has greatly enhanced the electronic capabilities of both the state and its contract agencies. The current staff size of the board along with the volume of data make this an extremely cumbersome system without the electronic transfer of the reports the auditor is referring to.

4.**Manufacturing Grade Compliance Issues**

Manufacturing grade milk laws and regulations are promulgated by the SMB. The SMB is responsible for inspecting all manufacturing grade plants, receiving stations, and haulers. Manufacturing grade farms are inspected and tested by manufacturing milk plant fieldmen. Farm inspections and water tests are forwarded to the SMB. For fiscal year 1998, raw milk samples from the farms were retained by the cooperatives; any violations are reported to the SMB. Beginning in fiscal year 1999, the SMB started receiving a monthly report of all test results along with a report on violations.

- A. The SMB requires water test samples to be taken every six months for plants and receiving stations and every three years for farms. During our review, we noted seven of twelve water tests for which the SMB had no record on file. Of the seven tests, two were from plants, one from a receiving station, and four from farms. Without the actual water test or a report regarding each entity's water test results, the SMB has no assurance that the tests were conducted and any violations were resolved.
- B. The SMB requires manufacturing grade farms to be inspected at least annually. Because of funding limitations, the SMB has arranged for manufacturing milk plant fieldmen to perform the required inspections of the producers at no cost to the state. However, the duties of the milk plant fieldmen conflict with the regulatory responsibilities imposed by the SMB.

Manufacturing grade milk laws and regulations promulgated by the SMB require manufacturing grade farms to be inspected annually to ensure minimum quality standards are met and to determine eligibility for recertification. The SMB maintains a computerized listing of manufacturing grade producers along with the inspection dates. From this information, the SMB prepares a monthly delinquent inspection listing which is distributed to the fieldmen; however, the SMB does not adequately follow-up with the fieldmen to ensure manufacturing grade producers are inspected annually.

Our review of the February 2000 delinquent farm inspection report indicated twenty farm inspections which were delinquent and five of the farms were delinquent more than thirteen months. According to SMB management, a stop sell order is to be issued if the farm inspection is not received within thirteen months. As of March 17, 2000, four of the five farms delinquent more than thirteen months had not been issued a stop sell order. Without adequately following up on delinquent inspections, the SMB has less assurance that minimum quality standards are met. Furthermore, since SMB regulations provide that no milk for manufacturing purposes produced on an uncertified farm shall be bought or sold, it is especially important for the SMB to ensure that inspection procedures for recertification are followed.

It should be noted that the SMB's follow up efforts and use of data available from the delinquent inspection tracking system has improved since the audit for the year ended June 30, 1997.

- C. There are approximately 450 bulk milk haulers (BMH) operating in the state. The majority of the licensed BMH also have a Grade A milk license and are inspected for compliance with Grade A standards every six months. The remaining haulers, which are manufacturing grade haulers, are not inspected on a regular basis. Although the procedures used by both kinds of haulers when transferring milk from the bulk tanks to the trucks are the same, state and federal regulations do not require regular inspections of manufacturing BMH. During our review, we noted three manufacturing grade haulers which were not inspected during the audit period. Regular inspections of all haulers are necessary to ensure proper procedures are followed to guarantee the safety of milk and milk products sold in the state.
- D. The SMB has not established a program which requires regular pesticide testing of raw manufacturing milk and milk products. Federal requirements include a provision which states milk containing pesticides or other chemical residues in excess of the established limits shall not be sold or offered for sale for human food.

Some of the above findings have been included in prior reports back to 1985. In each of these areas, we have recommended the SMB continue to address these concerns, including funding and legislative requests. The SMB has previously requested funding regarding parts B., C., and D., and these requests were not granted by the General Assembly. Thus, the funding requests have been withdrawn and have not been reintroduced since fiscal year 1997.

WE RECOMMEND the SMB:

- A. Ensure that water samples are tested every six months for plants and receiving stations. In addition, water samples should be tested every three years for farms. Finally, the SMB should maintain a record of each water sample tested.
- B. Ensure that manufacturing grade farms are inspected annually. In addition, the SMB should issue stop sell orders on all farms which have not been inspected within a thirteen month period, as established by the SMB. Also, the SMB should continue to seek alternatives to accomplish inspections of manufacturing grade farms with state inspectors rather than milk plant fieldmen.
- C. Require manufacturing grade haulers be inspected at regular intervals.
- D. Establish a manufacturing grade pesticide testing program.

AUDITEE'S RESPONSE

A,B,

&C. *The State Milk Board had a period of time within the two year audit period during which the position responsible for filing and monitoring the records in question was repeatedly refilled and trained. The position was part time during the same period. The position is currently filled by a full time employee. The State Milk Board management feels improvement will be shown in fiscal year 2001. The board management is working directly with the position responsible for accumulating and monitoring data to assure better compliance performance with manufacturing grade records. The board will strive to inspect all manufacturing haulers annually.*

D. *The State Milk Board has not been able to acquire appropriations to cover costs of testing manufacturing milk for pesticides, and by law, Grade A fee fund money cannot be substituted. However, much of the manufacturing milk not tested individually is subject to test when commingled with Grade A milk which is sampled and tested for pesticides. This should be considered when questioning the legislature's reluctance to appropriate general funds. Nevertheless, some milk is not tested on a regular basis so the board will once again request general revenue funding for this purpose.*

5. Rating Surveys

Section 196.951, RSMo 1994, requires the Department of Health (DOH), as the official rating agency for the SMB, to make an official rating survey at least annually on all Grade A BTU's (Bulk Tank Unit - a group of dairy farms), plants, and receiving and transfer stations. The rating survey scores are reported to the USFDA (United States Food & Drug Administration) for inclusion in the IMS (Interstate Milk Shipper) report. The FDA also conducts inspections of Grade A producers and processors. The rating surveys contains two scores; one for sanitation and the other is for enforcement of the PMO (Pasteurized Milk Ordinance) and state laws. The SMB Executive Secretary indicated the SMB relies somewhat on the enforcement score determined by DOH's rating surveys to provide evidence that its contractors are complying with the terms of the contract by ensuring compliance with the PMO and state laws.

During the audit period, the rating surveys were conducted on an eighteen to twenty-four month schedule instead of annually as required by state law. DOH uses a standardized form for rating an entity during an on-site visit. This documentation is necessary to provide evidence of the actual on-site visits and to detail any violations noted during the visits. During our review of the official survey ratings, we noted the files pertaining to three of seven plants and two receiving stations did not contain the standardized form. As a result, there is no documentation to support the entities' official survey ratings. Because the rating surveys are not conducted in a timely manner and some of the ratings are not supported with adequate documentation, the SMB should reconsider the extent of its reliance on the DOH rating surveys as a measure of its contractors' performance.

A similar condition was noted in our prior report.

WE AGAIN RECOMMEND the SMB, through the DOH, ensure annual rating surveys are conducted as required by state law. In addition, all rating surveys should be supported by adequate documentation. Finally, SMB should find alternative methods for monitoring its contractors' performance.

AUDITEE'S RESPONSE

The State Milk Board will bring the auditor's findings to the Department of Health's attention. The programs are separated in Missouri by law and the board must leave management decisions pertaining to the surveys to the legal administration of the rating program. The board will try to link its efforts to improve this item to the computer issue discussed in MAR No. 3.

This report is intended for the information of the management of the State Milk Board and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Follow-Up on State Auditor's Prior Recommendations

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Department of Agriculture, State Milk Board on recommendations made in the Management Advisory Report (MAR) of our report issued for the year ended June 30, 1997. The prior recommendations which have not been implemented are repeated in the current MAR.

1. Inspection and Testing Issues

- A. The State Milk Board (SMB) had not established a program requiring regular pesticide testing of raw manufacturing milk or manufacturing milk products.
- B. Because of funding limitations, the SMB had arranged for manufacturing milk plant fieldmen to perform the required inspections of the producers. The SMB requires certified farms to be inspected annually; however, the SMB did not adequately follow-up with the fieldmen to ensure manufacturing grade producers were inspected annually.
- C. Section 196.951, RSMo 1994, requires the Department of Health (DOH), as the official rating agency for the SMB, to make an official rating survey at least annually.
- D. Manufacturing grade bulk milk haulers (BMH) operating in the state were not required to be inspected regularly.

Recommendation:

The SMB continue efforts which would address these areas, including funding and legislative requests.

Status:

- A,B,
&D. Not implemented. See MAR No. 4.
- C. Not implemented. See MAR No. 5.

2. Milk Inspection Program

- A. The SMB received annual budget estimates from each of the health departments milk inspection programs; however, actual cost data was not regularly obtained. In addition, it appears the fees collected from producers were no longer adequate to cover inspection costs as appropriations from General Revenue Fund - State were requested in fiscal years 1995, 1996, and 1997 to cover payments to contractors. A

comprehensive review of the fee structure was not performed to determine if a statutory fee increase was necessary to cover increased costs of inspection.

- B. Based on the SMB's records of milk produced for fiscal year 1997, it appears the Springfield Health Department was paid approximately \$30,000 more than the limit set by statute.

Recommendation:

The SMB:

- A. Periodically analyze budget and cost data from contractors to ensure payments are appropriate. In addition, the SMB should determine whether legislation increasing fees should be pursued to ensure sufficient monies are collected to cover costs of inspections.
- B. Ensure payments to local health departments for inspection of milk and milk products do not exceed limits established by state law or pursue legislation to amend state law to allow such payments.

Status:

A&B. Not implemented. See MAR No. 1.

STATISTICAL SECTION

History, Organization, and
Statistical Information

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
HISTORY AND ORGANIZATION

The Missouri State Milk Board was created in 1972 when the General Assembly adopted and the Governor signed into law House Bill No. 1280. In accordance with the Omnibus State Reorganization Act of 1974, the State Milk Board was transferred to the Department of Agriculture under a Type III transfer. Under a Type III transfer, the Director of the Department of Agriculture does not maintain supervision over substantive matters relating to policies and regulative functions of the State Milk Board.

Pursuant to Executive Order No. 82-9, effective August 13, 1982, A . . . All powers, duties, and functions vested in the Division of Animal Health and the Director of the Department of Agriculture with respect to administering and enforcing the provisions of Sections 196.520 through 196.610, RSMo Supp. 1996, (relating to The Missouri Manufacturing Milk and Dairy Market Testing Law) . . .@ were transferred to the State Milk Board.

The State Milk Board consists of twelve members, ten of whom are appointed by the governor. The two remaining members of the board are the director of the Department of Health and the director of the Department of Agriculture or their designated representatives. An executive secretary serves as the administrative officer of the board, which administers the inspection of milk supplies.

The Fluid Milk Inspection Program is funded from milk inspection fees. Beginning in fiscal year 1995, the General Assembly has annually appropriated \$250,000 from the General Revenue Fund-State to help cover inspection costs. Section 196.945, RSMo 1994, limits milk inspection fees to five cents per one hundred pounds of fluid milk. The inspection fee is set by the board after holding a public hearing giving thirty days public notice. The inspection fee for the two fiscal years ended June 30, 1999 was five cents per one hundred pounds for milk produced in Missouri and four cents per one hundred pounds for milk produced in other states and imported into Missouri. Imported milk is charged a lesser rate because the originating state inspects its producers.

During the year ending June 30, 1998, the State Milk Board contracted with the county of St. Louis and the cities of Kansas City and Springfield to perform the actual inspections. On July 1, 1998, the State Milk Board assumed management responsibility for the Kansas City area. The board's enforcement of statutes and regulations ensures that fluid milk and milk products are uniformly inspected, regulated, and graded throughout the state. The board's operation of the Fluid Milk Inspection Program is funded by the difference between the inspection fee collected and the contract payments to the other governmental units.

The Manufacturing Milk and Dairy Market Testing Law Program is funded by appropriations from the state's General Revenue Fund. The State Milk Board is responsible for the enforcement of laws relating to the sanitation and quality standards of milk used for manufacturing dairy products and to market test all milk at first point of sale. Milk producers, manufacturing plants, field superintendents, testers, graders, samplers, and milk truck operators are also licensed under this program.

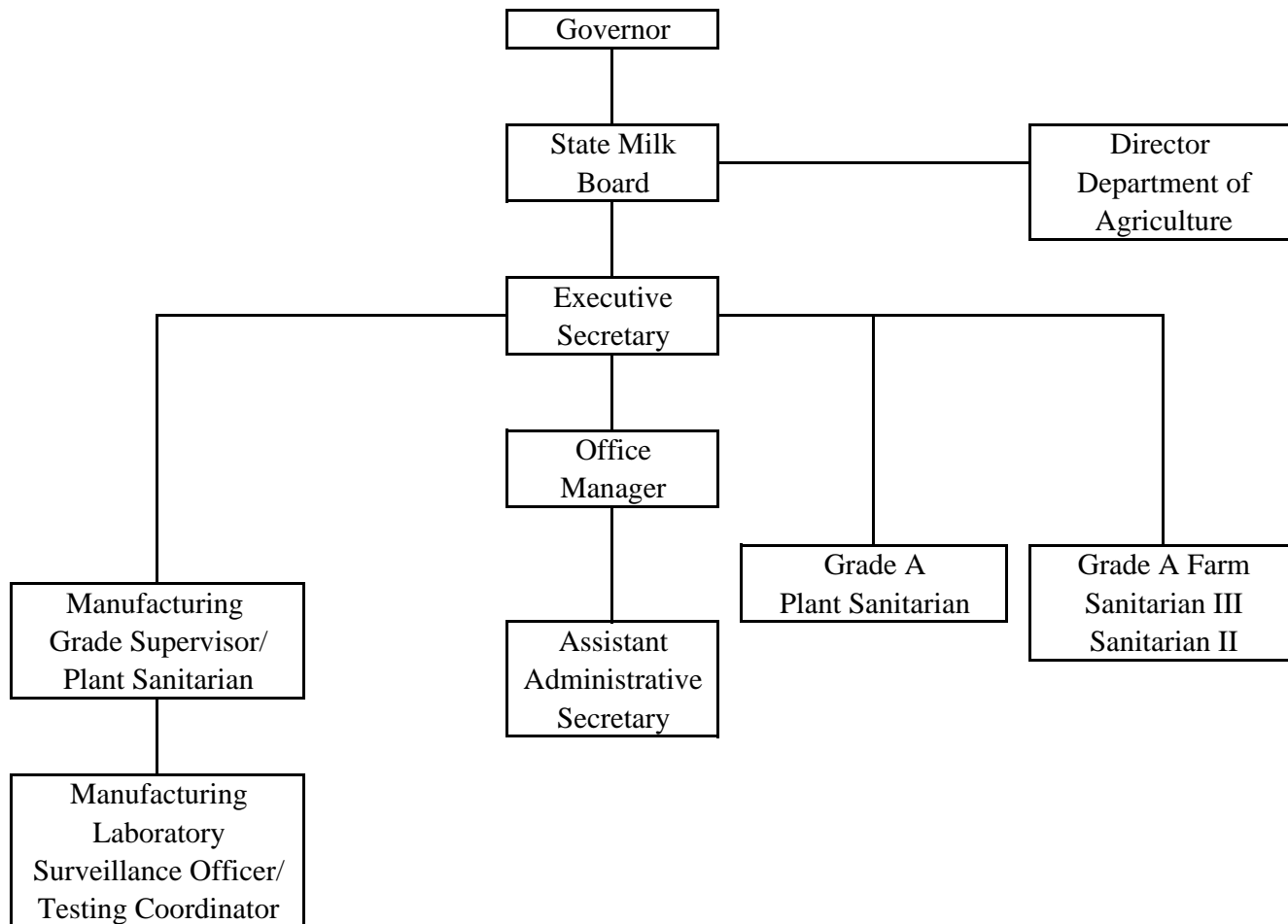
At June 30, 1999, State Milk Board members were as follows:

<u>Name</u>	<u>Organization</u>	<u>Term Expires</u>
Jean Grabeel	Consumers-at-large	September 28, 2000
Ronald D. Boyer	Springfield/Greene County Health Department	September 28, 1998*
Vacant	St. Louis City Health Division	September 28, 2002
Lester Evans	Missouri Farmers Association	September 28, 1999
Barry Drucker	St. Louis County Health Department	September 28, 2001
Gale L. Hackman	Central Dairy	September 28, 2000
Dr. Chuck Massengill, DVM	Department of Agriculture	Ex Officio
Roger Gibson	Missouri Department of Health	Ex Officio
William Siebenborn	Farm Bureau	September 28, 2001
Cynthia Davis	Kansas City Health Department	September 28, 1997*
Kate Borman	Holstein Association	September 28, 2002
Robert W. Cary	Prairie Farms Dairy	September 28, 2002

* Continues to serve until a replacement is appointed.

Mr. Terry Long serves as the Executive Secretary of the board. In addition to Mr. Long, the State Milk Board has seven employees. An organization chart follows.

DEPARTMENT OF AGRICULTURE
STATE MILK BOARD
ORGANIZATION CHART
JUNE 30, 1999



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